



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Продовольственная и  
сельскохозяйственная  
организация  
Объединенных  
Наций

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

## COMMITTEE ON COMMODITY PROBLEMS

### INTERGOVERNMENTAL GROUP ON BANANAS AND TROPICAL FRUITS

#### Fifth Session

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### CURRENT SITUATION AND SHORT-TERM OUTLOOK

## I. INTRODUCTION

1. A major function of the Intergovernmental Group (IGG) on Bananas and Tropical Fruits, and its Sub-Groups (SG) is to monitor developments in the world banana and tropical fruit economies, and undertake comprehensive analysis of supply, demand, price and cost developments. The tasks mentioned are covered extensively in the documents available for this, the Fifth Session of the IGG on Bananas and Tropical Fruits, and reflected in the agenda. Document CCP: BA/TF 11/Inf.4 comprises a market commentary prepared by the Secretariat which assesses the status of global supply and demand of bananas and tropical fruits and touches on some of the issues and challenges facing this group of commodities. Data presented are based on the returns provided by members of the IGG to the Secretariat and are summarised in tables annexed to this document. Detailed compilation of the latest statistics from the SG questionnaires are presented in two statistical compendia on production, imports, exports, consumption and prices, tabled as documents CCP:BA/TF 11/CRS 1 and CCP:BA/TF 11/CRS 2. Delegates are invited to provide appropriate updates on market developments relevant to their countries.

## II. BANANAS

### A. INTRODUCTION

2. Banana is one of the top 5 most commonly eaten fruit in the world. Including Cavendish, which is the largest internationally traded variety, banana is the fourth most important food crop in agriculture after rice, wheat and maize.

3. In most producing countries, banana production is exclusively for domestic consumption, similar to other tropical fruit production. Only about 20 percent of banana output is traded internationally, involving a small number of countries and primarily controlled (more than 80 percent) by 5 major multinational banana trading companies. However, supermarket chains in major import markets have wrestled power from these multinationals in recent years.
4. Future development in the world banana economy could see the emergence of new major banana suppliers in the global markets, perhaps India and possibly Brazil, which together produce twice the volume of banana traded internationally. Other developments include expansion into Africa to take advantage of the *Everything But Arms (EBA)* initiative, which allows duty free access to the EU from least developed countries (LDCs).
5. The most important development in international banana trade since the last session of the IGG-BATF was the agreement between the EU and Latin American exporters at the end of 2009 to gradually reduce the banana import tariff in the EU from €176/tonne for non-ACP bananas to €114/tonne by 2017. A first reduction of €33/tonne to €143/tonne came into effect in May 2010. Analyses of the impact of the agreement point to an expected reduction in prices to consumers and subsequent increase in demand. A study commissioned by the International Centre for Trade and Sustainable Development (ICTSD)<sup>1</sup> projects demand in the EU to increase by about 6 percent. Imports from Latin America would rise by 17 percent while shipments from ACP countries would decline by 14 percent and import prices could drop by as much as 12 percent.
6. In the meantime, the Commission proposed the mobilization of €200 million from the EU budget for the Banana Accompanying Programme (BAM) to support ACP banana exporting countries adapt. Several strategies adopted by ACP countries include:
  - Reducing production costs and combating disease. Funds under BAM have been used for research into more cost efficient disease control and eradication; and
  - Diversification into more specialized products such as fair trade and organic bananas. Examples include fair trade bananas from the Windward Islands, and organic banana production in the Dominican Republic.

## B. EXPORTS

7. World banana exports marginally declined to 14.7 million tonnes in 2009, reflecting the reduction in exportable supplies from Asia and Africa. Larger shipments from Latin America and the Caribbean were insufficient to offset these declines. Preliminary returns for 2010 indicate a continuation of this trend (Table 1).
8. The major supply region continued to be Latin America in 2009. Exports from Ecuador, the largest banana exporting country in Latin America and the world, continued on an upward trend reaching 5.5 million tonnes. Preliminary returns for 2010 indicate a further increase in exports to 6 million tonnes. The combined effects of the reduction in import tariffs in the EU, firm producer prices and favourable weather fostered a 9 percent expansion in supply. The official minimum price paid to Ecuadorian banana producers was raised to USD 5.40 a box in July 2009 and maintained throughout 2010, from USD 4.70 per box set in 2008. After significant increases in export volumes from Colombia and Guatemala in 2009 by 17 percent and 12 percent, respectively, returns for 2010 indicate declines of 14 and 24 percent, respectively as average export prices from these countries fell by about 12 percent. In Costa Rica exports in 2010 recovered by 14 percent after falling 17 percent in 2009 due to adverse weather.
9. Among Asian suppliers some interesting developments occurred in 2009 as India, the largest banana producer in the world, continued with its exploratory shipments to the EU increasing volumes by 65 percent. In the Philippines, export availabilities were reduced by 24 percent following Cyclone Ondoy and the associated floods which caused widespread damage.

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<sup>1</sup> Giovanni Anania, Calabria University.

Impact of this natural disaster continued well into 2010 as exports fell by a further 24 percent. Access to the Australian banana market continued to be stalled as import permits for Philippine bananas awaited the completion of an independent scrutiny of the study commissioned by the Senate Committee on risk management measures. In China, a fall of 13 percent in 2010 followed a similar level of decline in banana exports in 2009 as export availability was significantly reduced due to the increase in domestic consumption<sup>2</sup>. Banana production has been growing rapidly in China in response to the increase in domestic demand, and the expansion could have implications for exports from the Philippines, which currently accounts for some 85 per cent of China's total banana imports.

10. Finally, in Africa, exports in 2009 contracted for the two largest exporting countries of Cameroon and Côte d'Ivoire by 11 percent and 3 percent, respectively. Preliminary estimates of exports from Cameroon indicate a further decline of 8 percent in 2010.

### C. IMPORTS

11. World banana imports fell by 7 percent in 2009. Major increases in net imports by China, underpinned by its continued strong economic growth, and by Japan, of 36 percent and 15 percent, respectively in 2009, were insufficient to offset the decline in traditional import markets of the United States and the EU (27) where net imports declined significantly by 11 percent and 8 percent, respectively. Retail surveys in the traditional markets indicate significant falls in consumption, not only of bananas, but also of other fruits and consumer goods in general, as consumer spending contracted in the EU and the United States in early 2009, possibly as a result of the economic slow down and the increased prices of consumer goods due to higher transportation costs. Import returns for the first 6 months (January-June) of 2010 indicate a significant increase in import volumes in the EU (27), possibly as a result of the reduction in import tariffs as well as the natural recovery in consumption trends. By June 2010, banana imports by the EU were already 84 percent of the total volume imported in 2009.

### D. PRICES

12. Prices for bananas remained firm in major import markets in 2009, but despite higher *import* and *wholesale* prices in France, *retail* prices actually fell by 2 percent (Tables 3, 4 and 5). In studying supply chain issues the Secretariat noticed subtle changes occurring in the structure of the banana markets that affect pricing policies of the major players. Previously, only a small number of players have traditionally controlled the distribution and wholesaling of bananas, but increasingly, large retailers (supermarket chains mainly) influence the functioning of the banana market, and are said to be the only players which consistently make a profit from bananas despite the price wars that they constantly get engaged in. The banana pricing policies of the supermarket chains are primarily to bring consumers through their doors so that they purchase other goods. In fact price wars resulted in a more than 40 percent drop in retail prices of bananas in the United Kingdom, between 2002 and 2007, and despite the supply surge of 2008/09 that drove fruit and vegetables prices down by 10 percent, banana prices actually fell by 36 percent.

13. However in 2009, the upward trend in *import prices* was due to the combined effects of higher costs of inputs, higher transportation costs, and in Asia, a tight supply situation due to lower exports from the Philippines. With the high cost of inputs and transportation, there was little scope for transfer pricing up to the import level, or CIF (cost insurance and freight). However, margins were large enough between CIF and retail levels for adjustments according to pricing policies of the players.

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<sup>2</sup> Refer to document CCP: BA/TF 11/3.

### **III. TROPICAL FRUITS**

#### **A. INTRODUCTION**

14. Tropical fruits are important to developing countries from both a nutritional and commercial perspective. They are cultivated widely in the tropics at commercial and subsistence levels and until the 1970s, were mostly utilized for domestic consumption. These fruits are a relatively cheap and ready source of vitamins and minerals which are important nutritional components. In recent years trade volumes have expanded dramatically, as developing countries perceived tropical fruits as representing viable options for diversification from traditional export crops, which have experienced downward trends in prices.

#### **B. PRODUCTION**

15. World production of tropical fruits was estimated at over 82.2 million tonnes in 2009, slightly less than the 82.5 million tonnes produced in 2008 (Table 6). Mango was the dominant variety with a global output of 31.7 million tonnes and made up almost 39 percent of world tropical fruit production. Pineapple production comprised about 23 percent, followed by papaya at 13 percent and avocado 4 percent. The minor tropical fruits, i.e. those that were traded in smaller volumes, such as lychees or litchis, durian, rambuttan, guavas and passion fruit, recorded an output of 17.8 million tonnes in 2009 and accounted for 22 percent of total tropical fruit production.

16. Asia is the largest producing region for tropical fruits, followed by Latin America and the Caribbean, Africa and Oceania. In 2009, Asia was the largest producer of mangoes, accounting for 75 percent of world production. Latin America and the Caribbean accounted for 14 percent, Africa 11 percent, and the balance was produced in Oceania. Pineapple output was also dominated by Asia accounting for 52 percent of world pineapple production in 2009, followed by Latin America and the Caribbean at 34 percent, and 12 percent in Africa. The Latin America and the Caribbean region accounted for almost 65 percent of avocado production and 33 percent of the world production of papayas.

17. Data on minor tropical fruits remain scarce, but an assessment was made from returns made by some producing countries, as well as industry sources. Of the estimated 17.8 million tonnes of minor tropical fruits produced in 2009, guava accounted for 34 percent, lychees 19 percent, longan 16 percent, durian 13 percent, rambuttan 12 percent and passion fruit 6 percent.

#### **C. TRADE**

18. About 90 percent of the tropical fruits produced globally are consumed in producing countries themselves, passing through formal and informal markets. 10 percent is traded internationally; 5 percent as fresh fruits and a similar proportion traded as processed products. Contribution to farm/rural household incomes is significant with the value of production of tropical fruits estimated at USD 18 billion in 2009 (the latest year of available data).

19. Although fresh tropical fruits traded internationally are only a small proportion of the total volume produced, quantities are relatively large compared to other fruits, and export values are significant. In 2009, the total value of international trade of fresh tropical fruits was USD 5.4 billion, compared to USD 7.9 billion for bananas, USD 5.4 billion for apples, USD 4 billion for oranges, and USD 2.1 billion for pears. An additional USD 6.5 billion is traded as processed tropical fruit.

#### **D. EXPORTS**

20. World exports of fresh, major, tropical fruits declined by 6 percent in 2009 to reach 3.95 million tonnes, reflecting a major reduction of 22 percent in exports of pineapples (Table 7). After

reaching a record shipment of 1.1 million tonnes in 2006 the export growth rate of MD-2 pineapples levelled off in 2007/08, before declining in 2009. The world exports of other fresh tropical fruits in 2009 indicate a significant increase for avocado (23 percent), papayas (15 percent) and mangos (6 percent). Global exports of minor fruits in 2008, the latest data available, indicate continued expansion, albeit at a slower growth rate as intra-regional trade in Asia weakened slightly from historical trends, possibly due to the initial effects of the economic slow-down in the region.

## **E. IMPORTS**

21. World imports of fresh, major tropical fruits increased by 5 percent to reach 4.2 million tonnes in 2009 (Table 8). The United States was the largest importer of fresh tropical fruits followed by the EU, Japan and China. The United States and the EU accounted for 75 percent of world imports of pineapple, mango, papaya and avocado in 2009, with the United States accounting for 40 percent and the EC 35 percent. Imports of minor tropical fruits on the other hand were dominated by China, Singapore and Malaysia, as demand for these fruits tend to be concentrated in Asia.

## **F. PRICE TRENDS IN MAJOR MARKETS**

22. Price information varies widely depending on quality and origin. Wholesale prices for pineapples in all major markets declined in 2009 reflecting the ample supply of MD-2. However, in the French market, although pineapples from Costa Rica (mainly MD-2) declined, price of pineapples sourced from Côte d'Ivoire (mainly smooth cayenne) increased. Wholesale price data for selected fruits are available in the tropical fruits compendium, CCP:BA/TF 11/CRS 2.

## **IV. MEDIUM-TERM OUTLOOK**

23. An attempt was made at projecting medium term prospects for bananas and tropical fruits to 2019, based on dynamic time series models, essentially employing vector autoregression (VAR) models, to estimate likely development in production, consumption and trade. Projections assumed normal weather patterns and a continuation of the past trends in yields and planted areas. Exogenous variables include population prospects, expected inflation rates, changes in exchange rate and income growth. Although projections at the global level appear to be reasonable, further refinement is required particularly to disaggregate projections at the country level. Adjustments would also have to be made to better reflect recent policy developments and their impact on international trade of these fruits. The Secretariat hopes to have these projections available for discussion at the next session of the IGG-BATF. Preliminary projections at the global level are available in table 9. Delegates are invited to share development plans for bananas and tropical fruits with respect to their countries in order that the Secretariat reflect these when refining medium term projections for the next session.

## **V. CONCLUDING REMARKS**

24. Given the current global demand and supply information and possible future market prospects, some concluding remarks, in terms of the evolution of the banana and tropical fruits market, current challenges including those arising from high oil prices, need for improved cost efficiency, the necessary policy considerations and intergovernmental collaboration are outlined below.

25. For bananas, environment, trade policies, food safety and health concerns will affect production, trade and consumption and there is no assurance that banana growers in developing countries will equally benefit from production expansion and trade growth.

26. The market for other tropical fruit has evolved significantly since the 1980s, and with increasing maturity, price premiums based on novelty have virtually disappeared, to be replaced

by quality based premiums. The importance of quality in an increasingly crowded international fruit market has led to major initiatives by several multinationals to establish orchards with the necessary post harvest infrastructure to produce and pack fruit for specific export markets. These developments have enabled tropical fruits to compete at the upper end of the market, maximising earnings through the sales of fresh fruit in a segment where unit prices are at a premium and contributing to the rapid rise in trade values.

27. The hikes in oil prices and their subsequent effects on inputs and freight rates have eroded profit margins, along the value chain. Some of the costs have been passed on to retailers, who have in turn passed on to consumers. However, because of the intense competition in the fruit trade, and the relatively higher price elasticity of tropical fruits in some developed markets, sudden increases in prices could result in tropical fruits being substituted by other fruits. To remain competitive in the market, significant investment in new technology is needed to lower cost of production throughout the tropical fruit value chain. This includes investment in cost effective packaging technology, processing machines, and energy efficient storage houses. Efforts should also be made to implement cost effective production methods, improve chain logistics and enhance distribution networks.

28. Large sized production units and trading firms are better positioned to withstand rising cost of production because they can easily transfer additional cost down the supply chain given their strong market position. Many smaller firms, however, are unable to do so and can be forced out of the industry, leading to employment and income loss, particularly in the rural areas. Additional research is required in this area to assess the consequences on consumers and the entire value chain.

29. Forecasts carried out by the Secretariat suggest that ample opportunities exist for the commercial development of bananas and tropical fruits, as demand for tropical fruits, in particular, should continue to grow strongly, albeit at a slower rate than the last decade. Major challenges for future market growth appear to be associated with a coordinated approach to managing the field-to-market-supply chain, for both fresh and processed products.

30. Effective policies should be implemented to address the concerns of small producers and processors, in the form of easy access to credit and information on technology, prices and costs. Government should also promote policies that encourage smallholder cooperatives, to empower small holders at both the production and processing stages. Rising production costs has raised concerns over the potential increase of market power in the hand of a small number of players such as large producers, supermarkets, and large trading firms.